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OFFICE OF REPORTS AND ESTIMATES

TRANSPORTATION GROUP

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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The potential of aircraft as a means for the clandestine transportation of embargoed products from Western Europe to the Satellite States and sensitive areas in the Near East continues to be exploited by countries in the Soviet orbit. (Item No. 1, B)

In an effort to circumvent Greek and Italian prohibitions of Czechoslovak commercial flights to the Near East, the Czechoslovak airline (CSA) may attempt to inaugurate scheduled air services to Israel via Albania. (Item No. 2, B)

The first incident involving major interference by Chinese Nationalist naval craft with US vessels entering "blockaded" ports in North China may shortly eventuate if the US-flag Isbrandtsen Line carries out its intention of sending two freighters to Shanghai. Any move by the Chinese Nationalist Government against a US vessel trading with Communist-held ports would inevitably bring to a head the question of the legality of the Nationalist "blockade." It might also require the US Government to take official action on the "blockade" and commit itself to a specific policy regarding trade with Communist China. (Item No. 3, B)

The disinclination of the Netherlands Government to permit any major construction of merchant vessels in its shipyards for the USSR is reflected by current shipbuilding activities in the Netherlands. Although the trade agreement concluded in June 1948 between the Netherlands and the USSR included a clause providing for the negotiation of shipbuilding contracts, there is still no activity whatever in Dutch yards for Soviet account. (Item No. 4, B)

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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

1. The potential of aircraft as a means for the clandestine transportation of embargoed products from Western Europe to the Satellite States and sensitive areas in the Near East continues to be exploited by countries in the Soviet orbit.

Throughout 1948 this traffic was noted principally in the furnishing of arms and ammunition as well as complete aircraft to Israel in violation of the UN Truce. With the establishment of controls over exports to Eastern Europe in connection with the ECA program, and implementation of the joint US-UK policy denying aviation equipment to the Satellite countries, efforts to transport such contraband by aircraft appear to have increased.

The airlift of proscribed goods to Eastern Europe is organized on an international scale. This is borne out by a report from a reliable source to the effect that large shipments of roller bearings from Italy are flown out of Zurich to Prague for distribution to Rumanian industries. This traffic is estimated to have totaled approximately 200 tons during the period February-May 1949 and is expected to continue.

It has long been known that Western embargoes have created an increasingly serious supply problem for the most important Satellite airline, CSA of Czechoslovakia. In spite of its difficulties, however, this airline has maintained its extensive international schedules. Apparently CSA has carefully organized its effort to acquire spare parts and replacements through clandestine means. Flight crews are encouraged to obtain such material when they call at Western airfields. A CIA source in Paris, for example, recently reported being approached by a self-styled agent for a Swiss firm with an offer to purchase "a year's supply of spare parts for 27 DC-3 aircraft." The report stated that although the agent claimed to be Swiss, he was more likely of Czechoslovak nationality.

Another organization apparently attempting to evade Western export controls is the Polish Airline (LOT), which flies an international route from Warsaw to Paris. Despite the low traffic potential (passenger loading averages only 38 percent of capacity), LOT is

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attempting to secure French permission to double the number of flights each month. Coincidentally, reports indicate that undercover agents are being established in Switzerland and France to procure special aviation equipment and blind flying instruments urgently needed by the Polish civil airline and the Polish Air Force. (Secret)

2. In an effort to circumvent Greek and Italian prohibitions of Czechoslovak commercial flights to the Near East, the Czechoslovak airline (CSA) may attempt to inaugurate scheduled air services to Israel via Albania. CSA is reportedly modifying its Soviet-built IL-12 transports (presumably to increase their range capabilities) for operation between Prague and Lydda, with stops at Tirana and Nicosia. Although the prime motive for the reported Czechoslovak move may be the restoration of CSA's former lucrative air traffic to and from Israel, the new routing may also be designed to supplement the USSR's airlift operations to Albania, or to replace such operations should the present Tito-Cominform rift lead to the cessation of Soviet flights across Yugoslav territory. (Secret)

SURFACE TRANSPORTATION

3. The first incident involving major interference by Chinese Nationalist naval craft with US vessels entering "blockaded" ports in North China may shortly eventuate if the US-flag Isbrandtsen Line carries out its intention of sending two freighters to Shanghai. According to the company's agents in Manila and Shanghai, respectively, one vessel on 26 August was loading cargo in Manila "consigned to North China ports and Shanghai", and another vessel is scheduled to arrive at Shanghai about 9 September.

On 23 August a Chinese naval craft prevented a British merchant vessel from entering Shanghai. The Chinese Government appears to be informed of Isbrandtsen's intentions, because the First Secretary of the Chinese Legation in Manila has requested information on the matter from US Embassy Manila, stating that if it were true "that this American vessel is proceeding to North China, this is very interesting." Any move by the Chinese Nationalist Government against a US vessel trading with Communist-held ports would inevitably bring to a head the question of the legality of the Nationalist "blockade." It might also require the US Government to take official action on the "blockade" and commit itself to a specific policy regarding trade with Communist China. (Confidential)

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4. The disinclination of the Netherlands Government to permit any major construction of merchant vessels in its shipyards for the USSR is reflected by current shipbuilding activities in the Netherlands. Although the trade agreement concluded in June 1948 between the Netherlands and the USSR included a clause providing for the negotiation of shipbuilding contracts, there is still no activity whatever in Dutch yards for Soviet account. The following list of contracts in the Netherlands for countries in Eastern Europe reveals, moreover, that Poland and Czechoslovakia, through which the USSR might have attempted to place dummy orders, will receive very little under current contracts.

By contrast, construction for Finnish and Yugoslav account, which will not improve the Soviet position under existing political circumstances, is substantial. The group of large and modern freight and passenger ships, for example, will provide an important qualitative improvement in the merchant shipping position of Yugoslavia by the end of 1950. (Confidential)

SHIPS UNDER CONSTRUCTION OR UNDER CONTRACT IN THE
NETHERLANDS FOR EASTERN EUROPE AS OF 20 JUNE 1949

<u>NUMBER AND TYPE</u> <u>OF VESSEL</u>	<u>SIZE</u>	<u>CONTRACT</u> <u>PRICE</u> (<u>FLORING</u>)	<u>PROBABLE</u> <u>DELIVERY DATE</u>
<u>Czechoslovakia</u>			
10 barges	725 ton	1,320,000	--
<u>Finland</u>			
1 coastal cargo	825 ton	675,000	O-49
1 coastal cargo	825 ton	820,000	Au-49
1 cargo-pass.	4000 ton	3,842,900	D-49
1 cargo	6000 ton	5,826,000	S-50
1 cargo	800 ton	814,750	D-49
1 cargo-pass.	4000 ton	4,190,000	L-50
2 Dump. barges	--	52,000	Au-49
		<u>16,224,450</u>	

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SHIPS UNDER CONSTRUCTION OR UNDER CONTRACT IN THE
NETHERLANDS FOR EASTERN EUROPE AS OF 20 JUNE 1949
(cont'd)

<u>NUMBER AND TYPE OF VESSEL</u>	<u>SIZE</u>	<u>CONTRACT PRICE (FLORINS)</u>	<u>PROBABLE DELIVERY DATE</u>
<u>Poland</u>			
3 pilot boats	--	273,681	Je-D-49
5 double screw tugboats	500 hp.	3,512,625	Je-D-49
8 single screw tugboats	250 hp.	2,714,552	Je-D-49
2 icebreakers	400 hp.	1,512,050	Je-D-49
2 harbor tug- boats	435 hp.	1,492,000	Je-D-49
4 pontoon cranes	--	3,356,000	Je-D-50
		<u>12,860,908</u>	
<u>Yugoslavia</u>			
1 cargo-pass.	9100 ton	6,836,000	O-50
1 cargo-pass.	9100 ton	6,836,000	N-50
1 cargo-pass.	3900 ton	4,272,800	F-50
1 cargo-pass.	3900 ton	4,212,800	O-50
1 cargo-pass.	9000 ton	4,627,800	Jy-49
1 cargo-pass.	8000 ton	4,034,000	F-50
4 motors	4900 hp.	5,750,000	N-51, Mr-52
1 floating derrick	350 ton	1,450,000	O-49
		<u>42,232,200</u>	
Total:		72,637,558	
		US \$27,311,722	

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